Personal Recollections

Philip E. Coldwell

As requested in the invitation to this monetary policy conference, I have reviewed my personal records and the published documents of the Federal Open Market Committee (FOMC) to refresh my memory of the August policy discussions leading up to the FOMC meeting of October 1979. My personal recollections of the policy discussions in the years leading up to August 1979 are colored by my dissents from the majority opinion. In almost all of those dissents, I wanted a tighter policy, especially in the years 1978 through 1979. Some of my unhappiness was fostered by pressure from the Carter administration, which seemed to be aimed at an easier policy.

I have presented below my personal record of my recommendations to the FOMC, with comments on economic and financial conditions.

1. Recession fears are fading as potential defense build-up influences expectations on jobs, materials, prices, inventories, and credit.
2. The fundamental fact of high inflation is the one certainty of the coming year, and, unless dampened, the possibilities of rising inflation will grow.
3. Gradualism in economic policy is a lovely theory but a practical monstrosity. Gradualism promises long-run improvement, but short-run events always seem to interfere.
4. Credit availability is high, and, with expectations of continued inflation, the interest rate restraint is minimal.
5. Banker attitudes reflect no feeling of quantitative limits and, to the contrary, see business as usual. It almost seems that the only thing that would impress them would be a major recession.
6. Fiscal policy portrays an aura of restraint, but I hope you will forgive me if I say I don't believe it. The possibility of defense expansion, the coming election, any weakening in the economy, and the continual pressure for welfare spending all lead toward a higher rate of expenditures and a lessening of the tax cut restraint.
7. Recent trends in international finance point to some dollar strength, but this could fade if the interest rate relation between countries narrows and our inflation rate stays high. The problems of export and import trade balances are still with us.
8. Thus, my recommendation to the FOMC is to err on the side of restraint. The long-run costs of inflations are so disruptive that even a recession is acceptable.

During the 1978 and 1979 meetings of the FOMC, the policy discussions ran the gamut of fiscal policy, monetary policy, foreign exchange policy, and the uncertainties of rising inflation. Even the monetary policy measuring sticks of interest rates and monetary aggregates were under considerable debate. My own policy preference was to tighten availability of funds by raising interest rates. I was not enamored with monetary aggregates, because their interpretations and measures of use were far from clear. Moreover, the FOMC was split as to the degree of interest rate change to be adopted.

Several of the Board members had become increasingly irritated with the policy of small

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steps toward fighting inflation that the majority of Board members supported. Thus, we supported the change toward the use of monetary aggregates as a means of more stringent and effective inflation control. Because my term on the Board expired in February 1980, I had less knowledge of the FOMC actions after that date. However, Congressional actions and Board policies created definitional problems in the use of money aggregates.

Given the 25 years since the 1979 period, I must say that my memory has dimmed. Nevertheless, the positions presented above reflect my recollections.

It should be remembered that part of the economic and financial chaos of the 1978-80 period was the change to a new administration and the turnover of governors on the Federal Reserve Board. Only three of the same governors were on the Board from January 1, 1978, to December 31, 1979. In 1978 there were four governors who resigned or died. In 1979, four members of the Board, including the Chairman and three governors, changed. The turnover in the administration and in the Federal Reserve Board created a distinct change in policy toward easier spending and only weak step-by-step Board actions to reduce inflation.